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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001386

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SUBJECT: TAIWAN LEGISLATURE PASSES 2007 ARMS PROCUREMENT
BUDGET ON LAST DAY OF SESSION

Classified By: AIT Director Stephen M. Young,
Reasons: 1.4 (b/d)

¶1. (SBU) Summary: In a late-night session on June 15, Taiwan's Legislative Yuan (LY) passed the government's 2007 annual budget, including initial appropriations for the purchase of 13 P3-C Orion anti-submarine aircraft, upgrades to three PAC-II Patriot missile batteries, and a feasibility design study for eight diesel powered submarines. The pan-Blue opposition stripped funding for PAC-III purchases and passed but froze one-third of the requested sum to purchase F-16 C/D fighters, giving the MND until October 31 to obtain P&A data from the U.S. The LY spring session adjourned after midnight without acting on a controversial KMT bill to reorganize the Central Election Commission (CEC). Partisan dispute over the CEC bill had been the major source of the budget hold-up in recent months. The LY will begin work on the 2008 budget when it reconvenes in September. End Summary.

¶2. (SBU) Taiwan's Legislative Yuan (LY) in a late-night session on June 15, the final day of the legislative session, passed the government's 2007 annual budget, including appropriations for the purchase of two defense systems from the U.S. In a break with the People First Party (PFP), the Kuomintang (KMT) voted with the ruling Democratic Progressive Party (DPP) to pass NTD 6.13 billion (USD 186 million) toward the purchase of 13 P3-C Orion anti-submarine aircraft, NTD 3.595 billion (USD 109 million) for upgrades to three PAC-II Patriot missile batteries, as well as NTD 200 million (USD 6 million) for a feasibility design study for eight diesel powered submarines. The LY also passed funds that allow MND to procure an additional 218 AMRAAM missiles, 235 Maverick missiles, and 144 SM-2 missiles.

¶3. (SBU) The pan-Blue opposition worked together to strip NTD 11.34 billion (USD 342 million) requested for PAC-III purchases from the budget and it passed but froze one-third of NTD 16 billion (USD 485 million) for the purchase of F-16 C/D fighters, giving MND until October 31 to obtain from the U.S. Price and Availability data and a letter confirming U.S. agreement to make the sale or else the funding will be canceled. The approved defense spending closely matches what the LY Defense Committee had agreed upon and put forward for ¶2007. Overall, Taiwan defense spending will increase to approximately NTD 296 billion (about USD 8.9 billion, or

2.65-2.68 percent of GDP) from the 2006 figure of NTD 237 billion (approximately USD 7.2 billion). However, that 2.65-2.68 percent figure includes conditional funding for the F-16s. Without that line item, which requires USG action, the final budget number would be NTD 280 billion (2.55-2.58 percent of GDP).

¶4. (SBU) The KMT had held up passage of the annual budget, which includes defense appropriations, for six months due to partisan bickering over a bill to reorganize the composition of Taiwan's Central Election Commission (CEC). Under the CEC regulations the DPP government appoints the CEC's commissioners, effectively holding the authority to manage and set dates for elections and referendums. The LY adjourned after midnight without acting on the CEC bill. The term of the CEC commissioners expired on June 16 and the Premier is expected to follow past precedent and reappoint most of the commissioners to a new three-year term. The pan-Blue opposition, nevertheless, froze a quarter of all CEC funding not related to personnel salaries until a reorganization bill is passed. Some media report that lawmakers are discussing the possibility of holding a special LY session in July to work on the CEC and other legislation that did not pass this session.

Comment

¶5. (C) The long-awaited budget passed with relatively little fanfare in the local media, which has been consumed with a major business scandal and a Kaohsiung court ruling invalidating the DPP mayoral victory there last December. Passage of the long-stalled defense items will lead to a

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series of U.S.-Taiwan exchanges to start the P3-C and PAC-II upgrade programs. MND is planning to send a LY delegation in August or September to Washington and U.S. shipbuilding facilities. Although approval of the defense budget is a positive step in boosting Taiwan self-defense capabilities, it still falls short of the target to raise defense spending as a percentage of GDP to 2.85 percent in 2007 as a stepping stone to spending 3.0 percent in 2008. We have been strongly urging both Blue and Green political leaders here to pass a supplemental budget to procure PAC-3 missiles, which in theory could happen during a special LY session if one is held. During this Taiwan election campaign year, however, it may be more realistic to push the opposition and government to agree to approve PAC-3 funding in the 2008 budget cycle, which begins this fall.

YOUNG